

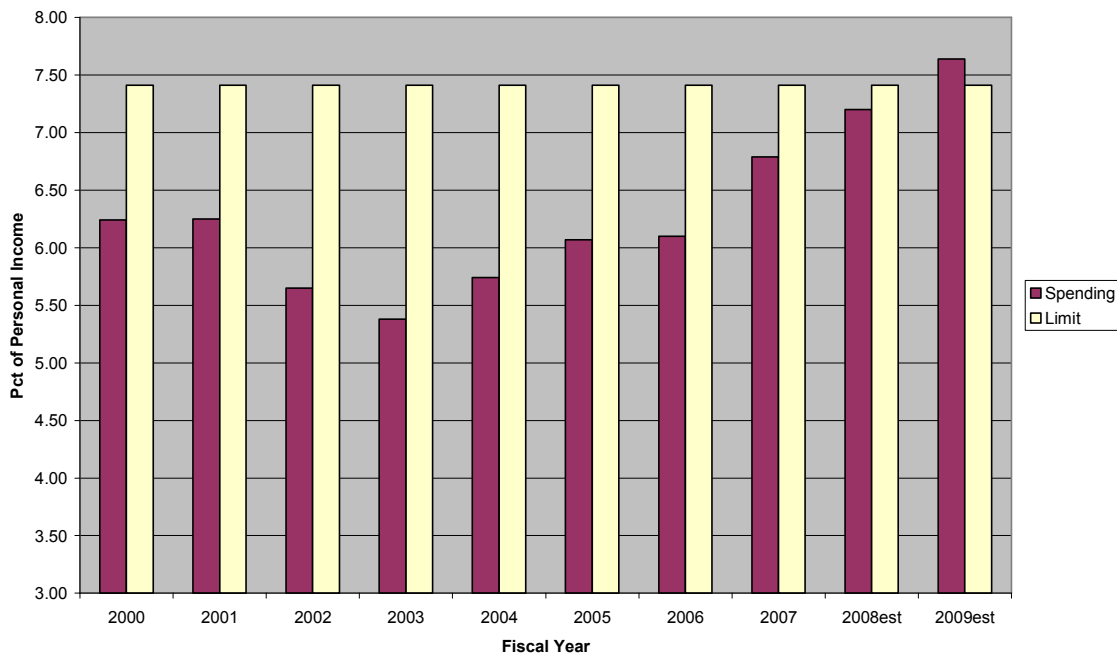
ARIZONA FEDERATION OF TAXPAYERS

a state chapter of

AMERICANS FOR PROSPERITY

Testimony on HCR 2025, House Appropriations Committee -- February 7, 2007

AZ GF Agency Expenditures as a Pct of Personal Income, 2000-2007 (OSPB)
2008-2009 Projections by AFT



As the graph shows, state spending as a percent of state personal income growth has been increasing since FY 2003, because spending has been growing at a faster rate than personal income. During the last four years, spending subject to the limit has grown at an annual average rate of 14.3 percent, while personal income has grown at 7.7 percent. And there is little indication of a change in the trend: the Governor's proposed FY2008 budget calls for a 12 percent increase in general fund spending alone, which is (once again) significantly higher than the forecasted increase in personal income.

Apologists for runaway government spending may argue that the rapid spending increases in FYs 2004-2006 were necessary to return spending to pre-recession levels, but it is clear that we are now spending significantly more as a percentage of personal income than we were before the recession. The last time we spent close to this level was in 1995, and before that, in 1989. As the graph shows, if we continue to spend at the rate established during the last four years, we will hit the spending limit by FY 2009.

The problem is that the current limit of 7.41 percent of personal income is far too high. The limit was established in 1979, during the Carter era, when Arizona government was much larger and was a much bigger burden on the economy. (Indeed, as appallingly large as last year's budget was, the current limit would have allowed the Governor and Legislature to spend over \$1.2 billion more!)

Thanks in large part to the tax cuts enacted under Gov. Symington, Arizona has become much more competitive, and—until recently—we were staying well below the old spending limit. The problem is that we are now moving back toward the spending levels of the 1980s. If allowed to continue, overspending will negatively impact the future economic growth of the state in the medium to longer run (there is always a lag to policy changes), and will fuel the demand for tax increases during the next recession, when revenues will prove inadequate to meet the expectations of high spending. In the post-Reagan era, Arizonans deserve better than a Carter-era spending limit.

HCR2025 is a moderate spending limit when compared to the Taxpayer Bill of Rights, aka TABOR. Under TABOR, government spending increases would be limited to the rate of growth of population plus inflation, which is nearly always slower than the rate of growth of personal income. Over time, TABOR would cause state government to shrink slowly as a portion of state personal income—one of the central goals of a gradualist conservatism. By comparison, HCR2025's personal income limit merely requires that state government stop expanding as a portion of the state economy. That would seem to fit the definition of "moderate." The idea that government should grow as a portion of the state economy—and especially, to grow larger from last year's baseline—cannot be characterized as moderate.

The Arizona Federation of Taxpayers and Americans for Prosperity are longtime proponents of the Taxpayer Bill of Rights. And our first preference in reforming the state's personal income limit would be to institute a much lower limit than HCR2025 contemplates—and then to explore options for putting that limit on a downward trajectory. However, we recognize that HCR2025 is an important stopgap measure designed to halt the runaway spending increases of recent years.

Arizona Federation of Taxpayers (www.aztaxpayers.org) is a state chapter of Americans for Prosperity (www.americansforprosperity.org).